



STATE OF MICHIGAN
DEPARTMENT OF TRANSPORTATION
LANSING

JENNIFER M. GRANHOLM
GOVERNOR

GLORIA J. JEFF
DIRECTOR

February 20, 2004

State Transportation Commission
and
Gloria J. Jeff, Director
Michigan Department of Transportation

I am pleased to submit the Annual Financial Report for the Michigan Department of Transportation (MDOT) for the fiscal years ended September 30, 2002 and 2003. This report is prepared by the Bureau of Finance and Administration which is responsible for both the accuracy of the data and the completeness and fairness of the presentation. The data is accurate in all material respects and is presented in a manner designed to fairly set forth the financial position and results of the department's operations.

This report is in compliance with Department of Management and Budget's Administrative Guide to State Government, which requires state agencies issuing financial reports to be consistent with the State of Michigan Comprehensive Annual Financial Report. In complying with state agency reporting guidelines, this report does not fully comply with all generally accepted accounting principles. These departures from generally accepted accounting principles, however, are not material; for example, the combined balance sheet does not include long-term obligations or capitalized assets. All disclosures necessary to enable the reader to gain a reasonable understanding of the department's financial affairs are included. A summary of the department's financial information follows.

FINANCIAL UPDATE

The United States economy began to grow stronger as business investment increased and unemployment decreased. The State of Michigan's economic recovery has lagged due to the decline in the number of manufacturing jobs. Fortunately, transportation revenues held stable or increased in 2003. The revenues deposited in the Michigan Transportation Fund (MTF) increased by 1.3 percent in fiscal year 2003. The majority of these revenues are disbursed to the State Trunkline Fund, counties, and cities/villages for road and bridge purposes. The Comprehensive Transportation Fund (CTF) receives 10 percent of the MTF revenues for public transportation services. CTF also receives sales tax revenue from vehicle-related sales, which had a modest increase of .8 percent in fiscal year 2003. As a result of the recovering economy, the amount of aviation fuel tax revenue deposited in the Aeronautics Fund increased by 10.5 percent over the previous fiscal year.

Federal transportation dollars are authorized every six years. In fiscal year 2003, the federal authorization is tied to the Transportation Equity Act, also known as TEA-21. This act was scheduled to expire September 30, 2003; however, Congress extended it through February 29, 2004. The Governor, MDOT, and a coalition of interest groups are aggressively lobbying Congress on the reauthorization of the Transportation Equity Act in an effort to return more dollars to Michigan for road and bridge repair. Currently, Michigan receives 90.5 cents for every dollar it sends to the federal government. Though our ultimate goal is 100 percent return, Michigan believes it can realistically achieve 95 cents on the dollar. The total federal obligation authority decreased from \$786 million in fiscal year 2002 to \$749 million in fiscal year 2003.

PROGRAM OVERVIEW

In fiscal year 2003, MDOT implemented the Preserve First program, which focuses resources on improving the condition of existing roads and bridges. The goal is to have 95 percent of freeways and 85 percent of non-freeways under MDOT's control in good condition by 2007. The advanced use of computer technology continues to enhance accurate forecasting of pavement condition and helps prioritize future projects. Over \$1 billion was spent on capital outlay expenditures for roads and bridges in fiscal year 2003.

One of the department's major safety goals is to reduce cross median crashes on freeways by establishing barriers. MDOT is also committed to improving driver safety by upgrading signs and pavement markings for better nighttime visibility, installing rumble strips on road shoulders, and upgrading guardrails.

Over \$200 million was provided in 2003 to support transit programs. The rail passenger program contributed \$6.7 million to Amtrak operations in Michigan. This program and the rail freight program are also continuing to make improvements to tracks and enhancing safety at rail grade crossings. A new Detroit Intermodal Freight Terminal is in the planning stages to ensure an efficient freight transportation system which helps businesses in Southeast Michigan remain competitive. MDOT is working with the Detroit/Wayne County Port Authority to build a dock and passenger terminal on the Detroit River.

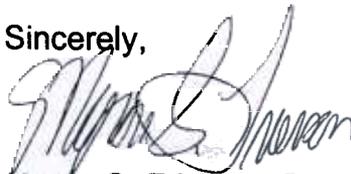
The department also administers the state airport development and licensing programs. In addition, the Airport Safety and Protection Plan program focuses on ensuring that new security measures are in place at each public-use airport in the state. In 2003, approximately \$117 million was spent to improve air transportation in Michigan.

CONCLUSION

In fiscal year 2003, \$4.4 billion was expended from all sources to address Michigan's transportation needs. MDOT's challenge continues to be making wise investment decisions with its resources to maximize the results achieved. This has fostered many inventive and innovative ideas at MDOT in the past, and will no doubt, promote even more in the future.

I wish to express my appreciation to the many people whose dedicated efforts made possible the preparation of this report. I believe their combined efforts have produced a report that will enable decision makers and concerned citizens to better understand and evaluate the department's financial condition.

Sincerely,

A handwritten signature in black ink, appearing to read "Myron G. Frierson". The signature is fluid and cursive, with a large initial "M" and "F".

Myron G. Frierson, Bureau Director
Finance and Administration